Glossary of key financial terms

Find definitions for financial terms that you may come across when you are dealing with accountants and financial institutions, or while running your business.

- **Accounts payable** - a record of all short-term (less than 12 months) invoices, bills and other liabilities yet to be paid. Examples of accounts payable include invoices for goods or services, bills for utilities and tax payments due.
- **Accounts receivable** - a record of all short-term (less than 12 months) expected payments, from customers that have already received the goods/services but are yet to pay. These types of customers are called debtors and are generally invoiced by a business.
- **Accrual accounting** - an accounting system that records transactions at the time they occur, whether the payment is made now or in the future.
- **Amortisation** - the process of expensing for intangible assets such as goodwill and intellectual property over a period of time. See also *Depreciation*.
- **Assets** - are things you own. These can be cash or something that can be converted into cash such as property, vehicles, equipment and inventory.
- **Audit** - a physical check performed by an auditor or tax official on a business' financial records to check that everything is accounted for correctly.

- **Bad debts** - money owed to you that is unlikely to be paid to you in the foreseeable future.
- **Balance sheet** - a snapshot of a business as of a particular date. It lists all of a business' assets and liabilities and works out the net assets.
- **Bank reconciliation** - a cross-check that ensures the amounts recorded in the cashbook match the relevant bank statements.
- **Bankrupt** - an individual is bankrupt when they cannot pay their debts and aren't able to reach an agreement with their creditors.
- **Bookkeeping** - the process of recording the financial transactions of a business.
- **Bootstrapping** - where a business funds growth purely through personal finances and revenue from the business.
- **Bottom line** - see *Net profit*.
- **Break-even point** - the exact point when a business' income equals a business' expenses.
- **Budget** - a listing of planned revenue and expenditure for a given period.

- **Capital** - wealth in the form of money or property owned by a business.
- **Capital cost** - a one-off substantial purchase of physical items such as plant, equipment, building or land.
- **Capital gain** - is the amount gained when an asset is sold above its original purchase price.
- **Capital growth** - an increase in the value of an asset.
- **Cash** - includes all money that is available on demand including bank notes and coins, petty cash, certain cheques, and money in savings or debit accounts.
- **Cash accounting** - an accounting system that records transactions at the time money is actually received or paid.
- **Cash book** - a daily record of all cash, credit or cheque transactions received or paid out by a business.
- **Cash flow** - the measure of actual cash flowing in and out of a business.
- **Cash incoming** - money that is flowing into the business.
- **Cash outgoing** - money that is flowing out of the business.
- **Collateral** - see *Security*.

- **Commercial bill** - (also known as a bill of exchange) is a form of commercial loan that can be offered on an interest only basis, or reducing basis. Commercial bills typically require some sort of security and suit short-term funding needs such as inventory.
- **Cost of goods sold** - the total direct costs of producing a good or delivering a service.
- **Credit** - a lending term used when a customer purchases a good or service with an agreement to pay at a later date (e.g. an account with a supplier, a store credit card or a bank credit card).
- **Creditor** - a person or business that allows you to purchase a good or service with an agreement to pay at a later date. A creditor is also anyone who you owe money to, such as a lender or supplier.
- **Credit limit** - a dollar amount that cannot be exceeded on a credit card or the maximum lending amount offered for a loan.
- **Credit rating** - a ranking applied to a person or business based on their credit history that represents their ability to repay a debt
- **Credit history** - a report detailing an individual's or business' past credit arrangements. A credit history is often sought by a lender when assessing a loan application.
- **Crowd funding :** Is a way of financing your business idea through donations of money from the public. This is usually done online, through a crowd funding website.
- **Current asset** - an asset in cash or that can be converted into cash within the next 12 months.

- **Debit** - in double-entry bookkeeping a debit is an entry made on the left hand side of a journal or ledger representing an asset or expense.
- **Debt** - any amount that is owed including bills, loan repayments and income tax.
- **Debt consolidation** - the process of combining several loans or other debts into one for the purposes of obtaining a lower interest rate or reducing fees.
- **Debt finance** - money provided by an external lender, such as a bank or building society.
- **Debtor** - a person or business that owes you money.
- **Default** - a failure to pay a loan or other debt obligation.
- **Depreciation** - the process of expensing an asset over a period of time. An asset is depreciated to spread the cost of the asset over its useful life.
- **Disbursements** - money that is paid out by a business.
- **Discount** - a reduction applied to a full priced good or service. See also *Markdown*.
- **Drawings** - personal expenses paid for from a business account.
- **Drip pricing** : Is when one price is presented at the beginning of an online shopping experience and gradually, incremental fees and charges are added (or 'dripped') as you progress, for example, when buying a plane ticket. Drip pricing can result in the customer paying a higher price for a service or product than they first thought. As a business owner, you are required to show fees and charges at the beginning of an online shopping process and not gradually add them in.

- **Equity** - the value of ownership interest in the business, calculated by deducting liabilities from assets. See also *owner's equity*.
- **Equity finance** - is money provided to a business in exchange for part ownership of the business. This can be money invested by the business owners, friends, family, or investors like business angels and venture capitalists.

- **Finance** - money used to fund a business or high value purchase.
- **Financial year** - a twelve month period typically from 1 July to 30 June.
- **Financial statement** - a summary of a business' financial position for a given period. Financial statements can include a profit & loss, balance sheet and cash flow statement.

- **Fixed asset** - a physical asset used in the running of a business.
- **Fixed cost** - a cost that cannot be directly attributed to the production of a good or service.
- **Fixed interest rate** - when the interest rate of a loan remains the same for the term of the loan or an agreed timeframe.
- **Forecast** - a prediction of future financial transactions. Forecasts are often used to help plan a more accurate budget.
- **Fringe benefits** - non-monetary benefits such as company cars and mobile phones, included as part of a salary package.

- **Goodwill** - an intangible asset that represents the value of a business' reputation.
- **Gross income** - the total money earned by a business before expenses are deducted.
- **Gross profit** - *(also known as net sales)* the difference between sales and the direct cost of making the sales.
- **Guarantor**- a person who promises to pay a loan in the event the borrower cannot meet the repayments. The guarantor is legally responsible for the debt.

- **Interest** - the cost of borrowing money on a loan or earned on an interest-bearing account.
- **Interest rate** - a percentage used to calculate the cost of borrowing money or the amount you will earn. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable.
- **Inventory** - an itemised list of goods or materials a business is holding for sale.
- **Investment** - an asset purchased for the purpose of earning money such as shares or property.
- **Invoice** - a document provided to a customer to request payment for a good/service received.

- **Liability** - a financial obligation or amount owed.
- **Line of credit** - an agreement allowing a borrower the ability to withdraw money from an account up to an approved limit.
- **Liquidate** - to quickly sell all the assets of a company quickly and convert them into cash.
- **Liquidation** - the process of winding up an insolvent company. An appointed administrator will do this by ceasing business operations, selling assets, and paying creditors and shareholders.
- **Liquidity** - how quickly assets can be converted into cash.
- **Loan** - a finance agreement where a business borrows money from a lender and pays it back in instalments (plus interest) within a specified period of time.

- **Margin** - the difference between the selling price of a good or service and the profit. Margin is generally worked out as a gross margin percentage which shows the proportion of profit for each sales dollar. See also *Mark up*.
- **Mark down** - a discount applied to a product during a promotion/sale for the purposes of attracting sales or for shifting surplus/discontinued products. See also *Discount*.
- **Mark up** - the amount added to the cost price of goods, to help determine a selling price. Essentially it is the difference between the cost of the good/service and the selling price, but it does not take into account what proportion of the amount is profit. See also *Margin*.
- **Maturity date** - when a loan's term ends and all outstanding principal and interest payments are due.

- **Net assets** - *(also known as net worth, owner's equity or shareholder's equity)* is the total assets minus total liabilities.

- **Net income** - the total money earned by a business after tax and other deductions are taken out.
- **Net Profit** - *(also known as your bottom line)* is the total gross profit minus all business expenses.
- **Net Worth** - See *Net assets*.

- **Overdraft facility** - a finance arrangement where a lender allows a business to withdraw more than the balance of an account.
- **Overdrawn account** - a credit account that has exceeded its credit limit or a bank account that has had more than the remaining balance withdrawn.
- **Overheads** - the fixed costs associated with operating a business such as rent, marketing, utilities and administrative costs. See also *Fixed costs*.

- **Petty cash** - cash for the purposes of small miscellaneous purchases such as postage.
- **Profit** - the total revenue a business earns minus the total expenses. See also *Revenue*.
- **Profit and loss statement** - (also known as an income statement) is a financial statement listing sales and expenses and is used to work out the gross and net profit of a business.
- **Profit margin** - see *Margin*.
- **Projection** - see *Forecast*.

- **R&D:** Stands for 'research and development'. Businesses conduct research and development to innovate, create new products and find better ways of doing things.
- **Receipt** - a document provided to a customer to confirm payment and to confirm a good/service has been received.
- **Record keeping** - the process of keeping or recording information that explain certain business transactions. Record keeping is a requirement under tax law.
- **Refinance** - when a new loan is taken out to pay off an existing one. Refinancing is often done to extend the original loan over a longer period of time, reduce fees or interest rates, switch banks, or move from a fixed to variable loan.
- **Return on investment (ROI)** - a calculation that works out how efficient a business is at generating profit from the original equity provided by the owners/shareholders. It's a way of thinking about the benefit (return) of the money you've invested into the business. To calculate ROI, divide the **gain** (net profit) of the investment by the **cost** of the investment - the ROI is expressed as a percentage or a ratio.

  (Net profit) / (Cost) x 100 = ROI

  Example

  Annie buys $1000 worth of stocks and sells the stocks a year later for $1500. The net profit is $500.
  Return on Investment = (500 / 1000) = 0.5 x 100 = 50%
  Annie's ROI on the stocks is 50%.

- **Revenue** - *(also known as turnover)* the amount earned before expenses, tax and other deductions are taken out.

- **Single-entry bookkeeping** - a bookkeeping method used within a cash accounting system and records one side of each transaction.
- **Scam** - a deliberate and targeted deception designed to obtain money or information unlawfully. See our [Small business scams] section.

- **Stock** - the actual goods or materials a business currently has on hand.
- **Stocktaking** - a regular process involving a physical count of merchandise and supplies actually held by a business, completed to verify stock records and accounts.

- **Tax invoice** - an invoice required for the supply of goods or services over a certain price. A valid tax invoice is required when claiming GST credits. See also *Invoice*.
- **Turnover** - See *Revenue*.

- **Variable interest rate** - when the interest rate of a loan changes with market conditions for the duration of the loan.
- **Variable cost** - a cost that changes depending on the number of goods produced or the demand for the products/service.
- **Venture Capital** - capital invested in a start-up business that is thought to have excellent growth prospects but does not have access to capital markets because it is a private company.

- **Working capital** - the cash available to a business for day to day expenses.